

DOCUMENT RESUME

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[Survey of HEW and States' Management of Spend-Down Payments for Medically Needy Persons]. HRD-77-43; B-164031(3). February 3, 1977. 5 pp.

Report to Secretary, Department of Health, Education, and Welfare; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Health Programs: Compliance With Financing Laws and Regulations (1207); Health Programs: Reimbursement Policies and Utilization Controls (1208); Health Programs: Impact of National Health Insurance (1209).

Contact: Human Resources Div.

Budget Function: Health: Health Care Services (551).

Organization Concerned: New York, NY; Maryland; California; District of Columbia; Illinois.

Congressional Relevance: House Committee on Interstate and Foreign Commerce; Senate Committee on Finance.

Authority: Social Security Act.

Reviews were conducted during 1975 and 1976 of systems for managing spend-down payments for the medically needy in New York, Maryland, California, the District of Columbia, and as a followup, in Illinois. Spend-down payments, provided by some States under Medicaid for those with incomes above a State-prescribed level but with greater medical expenses, are not eligible for Federal financial participation. Findings/Conclusions: New York and Illinois have been paying for and improperly claiming Federal assistance for spend-down amounts although procedures existed for collecting these amounts from the medically needy. Improper Federal financial assistance to New York State for expenses at municipal hospitals was estimated at \$3 million for a 12-month period. Illinois concurred with a 1975 HEW Audit Agency report on its Medicaid program, but did not meet the report's recommendations and did not plan corrective action until a new Medicaid Management Information System would be operational. Limited reviews at the other locations did not disclose billings for ineligible costs. Recommendations: The Administrator of the Social and Rehabilitation Service should: assure that the Federal Government does not reimburse New York and Illinois for ineligible amounts, evaluate billing procedures of other States, and adjust incorrect claims. (HTW)

00504



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

IN REPLY
REFER TO:

B-164031(3)

FEB 3 1977

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

During 1975 and 1976, we reviewed the systems for managing spend-down payments for the medically needy in New York, Maryland, California, and the District of Columbia. We also followed up on a December 1975 HEW Audit Agency report on this subject involving Illinois.

Generally, persons receiving public assistance under title IV, Aid to Families with Dependent Children (AFDC), or title XVI, Supplemental Security Income (Aged, Blind, and Disabled), of the Social Security Act are eligible for assistance under Medicaid. These persons are generally referred to as "categorically" needy. Persons whose incomes or other financial resources exceed standards, set by the States, to qualify for public assistance programs but are not sufficient to meet the costs of necessary medical care may also be entitled to Medicaid benefits if the State wishes. These people, eligible for Medicaid, but not cash assistance, are generally referred to as "medically" needy persons.

The medically needy may have all or part of their medical expenses paid for under Medicaid. Those medically needy whose income and resources are above a State prescribed level must first incur a certain amount of medical expense--the "spend-down" amount--before they can receive assistance under Medicaid. Federal regulations provide that the payment of this spend-down amount is a matter between the medically needy and the provider of medical assistance. These amounts are not eligible for Federal financial participation.

New York and Illinois have been paying providers for, and claiming Federal financial assistance for, spend-down amounts which are the responsibility of medically needy recipients. Procedures existed in both States for establishing accounts receivable and attempting to collect spend-down amounts from the medically needy; however, the collections--which were credited to total Medicaid costs--represented only portions

of the Federal Government's share of amounts improperly claimed. In addition, both States have made direct refunds for portions of the amounts incorrectly claimed; however, New York has made no refund for periods after September 1972, and Illinois continues to improperly claim Federal financial assistance for spend-down amounts which are the responsibility of medically needy recipients.

New York

On May 24, 1976, we reported to the Acting Regional Commissioner of the Social and Rehabilitation Service (SRS) regional office in New York on this subject.

New York State has been improperly claiming Federal financial assistance for spend-down amounts relating to medical expenses incurred by the medically needy at municipal and voluntary hospitals in New York City. Such Federal financial assistance amounted to about \$1 million for voluntary hospitals during fiscal year 1975. Based on actual spend-down amounts billed by municipal hospitals for the 6-month period, October 1975 through March 1976, we estimate that improper Federal financial assistance to municipal hospitals for a 12-month period was about \$3 million.

The passing on of costs incurred by these medically needy for Federal financial participation was previously identified in

- an August 20, 1969, audit report by the HEW Audit Agency,
- a November 26, 1973, audit report by the New York State Office of the State Comptroller, and
- a June 4, 1974, joint audit report by the New York State Departments of Social Services and Health and HEW's Social and Rehabilitation Service.

The State Comptroller's report estimated that, since the inception of the Medicaid program in 1966 through September 1972, the Federal Government had paid about \$3.7 million for these ineligible costs. New York State subsequently adjusted its December 1973 quarterly expenditures claim by \$3,701,500.

This report also recommended that "* * * future Medicaid claims for the cost of inpatient hospital care provided to patients with excess income should be submitted only after deducting that portion of the cost required to be paid by the recipient."

In its reply to a similar recommendation in the joint audit report, the city said that its method of billing the State for the cost of uncollected spend-down amounts is appropriate, and that the city "* * * shall continue to treat these cases in this manner until such time as we are notified, officially, of this major change in State policy."

On August 5, 1976, New York State responded to SRS Region II on the findings in our May 1976 report. The State noted it believed its prior billings were appropriate under existing regulations, and did not agree to any financial adjustments for prior payments of spend-down amounts. SRS regional office personnel informed us in January 1977 that they were still evaluating the State's response. New York City, however, effective with admissions beginning July 1, 1976, began deducting spend-down amounts from hospital billings for medically needy patients.

The Suffolk County Health District has also been receiving Federal financial assistance for spend-down amounts. About \$66,000 was involved in Suffolk in fiscal year 1975 of which the Federal share was \$33,000. Following our audit work, Suffolk's Medical Assistance Administrator told us on January 7, 1977, that the County had changed this reimbursement practice to pay hospitals net of the spend-down amounts.

Suffolk County and New York City Departments of Social Services had collected some spend-down amounts from patients. Suffolk County collected about \$31,000 on fiscal year 1975 accounts. This represented about 47 percent of the total spend-down liability for that year.

Collections of these spend-down amounts from medically needy persons treated by voluntary hospitals during a 1 year period and by municipal hospitals during approximately a 5-year period amounted to about \$514,000 or an overall 5 percent collection rate. Medicaid is credited for the spend-down amounts collected by both New York City and Suffolk County.

Illinois

The HEW Audit Agency issued a report dated December 23, 1975, on the Illinois Medicaid program. The Audit Agency reported that the majority of the spend-down amount for medically needy recipients was not being applied toward their medical costs. Instead, the State was paying these costs and claiming them for Federal financial participation with only a reduction for amounts actually collected from the recipients. The HEW Audit Agency estimated that Illinois had claimed at least \$626,000 in ineligible costs (Federal share \$313,000) which should have been paid by medically needy recipients.

Illinois concurred and adjusted its Quarterly Statement of Expenditures (Form SRS-OA-41) for the quarter ended September 30, 1975, in the amount of \$313,000.

The HEW Audit Agency recommended that Illinois (1) claim Federal financial participation for only those costs of Medicaid services which are in excess of the amount required to be paid by the medically needy recipients, and (2) compute the amount of Federal financial participation improperly requested and appropriately adjust its claim for Federal reimbursement.

The State's April 8, 1976, response to the report did not address these recommendations.

On May 20, 1976, we discussed the HEW Audit Agency report recommendations with Illinois officials. The officials told us that the State did not plan to take corrective action until its new Medicaid Management Information system was operational which was not scheduled until early 1978.

Other locations

Our limited reviews in Maryland, California, and the District of Columbia did not disclose any billings for ineligible costs which should have been paid by medically needy recipients.

CONCLUSIONS AND RECOMMENDATIONS

HEW has identified that New York and Illinois are billing the Federal Government for amounts that should be paid by medically needy recipients. As of June 1, 1976, 32 States and jurisdictions were providing assistance to the medically needy and 5 additional States have spend-down programs solely for the aged, blind, and disabled. Because of the substantial dollar value of the ineligible claims in New York and Illinois, we believe HEW should determine whether other States are billing the Federal Government for amounts that should be paid by medically needy recipients.

Accordingly, we recommend that you direct the Administrator of the Social and Rehabilitation Service to (1) assure that the Federal Government does not reimburse New York and Illinois for amounts that are not eligible for Federal financial participation; (2) evaluate the procedures of the other States and jurisdictions for billing for services provided to the medically needy, and where necessary, take actions to assure that the Federal Government does not reimburse States for amounts that are not eligible for Federal financial participation; and (3) compute the amount of Federal financial participation claimed which should have been paid

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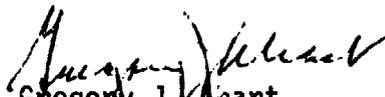
by medically needy recipients in Illinois, New York and other States and adjust the States' claims for Federal financial participation.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this letter to the appropriate Senate and House Committees and Subcommittees and to the Director, Office of Management and Budget.

We will be pleased to discuss this report with you or your representative.

Sincerely yours,


Gregory J. Anart
Director